

STATE OF MICHIGAN
DEPARTMENT OF ENERGY, LABOR AND ECONOMIC GROWTH
OFFICE OF FINANCIAL AND INSURANCE REGULATION

BEFORE THE COMMISSIONER OF THE OFFICE OF FINANCIAL AND INSURANCE REGULATION

In the matter of:)
)
WACHOVIA SECURITIES, LLC;) Case no.
and)
)
WACHOVIA CAPITAL MARKETS,)
LLC,)
)
Serve Wachovia Securities, LLC at:) **ADMINISTRATIVE CONSENT ORDER**
)
One North Jefferson Avenue)
St. Louis, Missouri 63103)
)
Serve Wachovia Capital Markets, LLC)
at:)
)
301 S. College Street)
TW-8, Mail Code NC0602)
Charlotte, North Carolina 28288-0601)
)
Respondents.)

WHEREAS, Wachovia Securities, LLC¹ ("Wachovia Securities"), is a broker-dealer registered in the state of Michigan with its home office at One North Jefferson Avenue, St. Louis, Missouri, and Wachovia Capital Markets, LLC ("Wachovia Capital Markets", collectively with Wachovia Securities, "Wachovia"²), is a broker-dealer with its home office at 301 South College Street, Charlotte, North Carolina; and

WHEREAS, a multi-state task force conducted and coordinated investigations into Wachovia's marketing and sale of auction rate securities to investors during the period of January 1, 2006, through February 14, 2008; and

¹ In October 2007, Wachovia Corporation acquired the Missouri-based broker dealer A. G. Edwards & Sons, Inc. ("AG Edwards") which was subsequently combined with Wachovia Securities, LLC.

² Factual allegations in this Order may apply to Wachovia Securities and/or Wachovia Capital Markets, but do not necessarily refer to both entities.

1 WHEREAS, after a books and records inspection by a multi-state task force on July 17, 2008,
2 Wachovia Securities has cooperated fully with regulators conducting the investigations by responding to
3 inquiries, providing documentary evidence and other materials, and providing regulators with access to
4 information relating to the investigations; and

5 WHEREAS, Wachovia has advised regulators of its agreement to resolve the investigations
6 relating to its marketing and sale of auction rate securities to investors; and

7 WHEREAS, Wachovia agrees to, among other things, reimburse certain purchasers of auction
8 rate securities, and to make certain payments at the direction of the Office of Financial and Insurance
9 Regulation (“OFIR”); and

10 WHEREAS, Wachovia elects to permanently waive any right to a hearing and appeal under the
11 Administrative Procedures Act of 1969, 1969 PA 306, as amended, MCL 24.201 *et seq.* and the
12 Uniform Securities Act of 1964, 1964 PA 265, as amended, MCL 451.501 *et seq.*, and the Rules
13 promulgated thereunder R 451.601.1 – 451.808.8, (the Uniform Securities Act), with respect to
14 this Consent Order (the “Order”);

15 NOW, THEREFORE, OFIR, as administrator of the Uniform Securities Act hereby enters this
16 Order.

17 I.

18 FINDINGS OF FACT

19 1. Wachovia Securities admits the jurisdiction of OFIR and Wachovia Capital Markets
20 consents to the jurisdiction of OFIR for purposes of this Order. Neither admits nor denies the Findings of
21 Fact and Conclusions of Law contained in this Order, and each consents to the entry of this Order by
22 OFIR.

23 2. Auction rate securities are long-term debt or equity instruments that include auction
24 preferred shares of closed-end funds, municipal auction rate bonds, and various asset-backed auction rate
25 bonds (collectively referred to herein as “ARS”). While ARS are all long-term instruments, one
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1 significant feature of ARS (which historically provided the potential for short-term liquidity) is the
2 interest/dividend reset through auctions that occur in varying increments of between 7 and 42 days. If an
3 auction is successful, investors are able to exit the ARS market on a short-term basis. If, however, an
4 auction "fails," investors are required to hold all or some of their ARS until the next successful auction in
5 order to liquidate their funds. Beginning in February 2008, the ARS market experienced widespread
6 failed auctions.

7 3. In early March 2008, Wachovia Securities' investors, unable to access their ARS funds,
8 began to submit complaints to OFIR. Since early March, 2008, OFIR has received numerous investor
9 complaints concerning the sale of ARS by Wachovia Securities.

10 **Marketing and Sales of ARS to Investors**

11 4. In connection with the sale of ARS, some Michigan investors state variously that they
12 were told by Wachovia Securities and its registered agents that ARS were:

- 13 a. just like cash;
- 14 b. same as cash;
- 15 c. safe as cash;
- 16 d. same as money markets;
- 17 e. safe as money markets;
- 18 f. cash equivalents;
- 19 g. short-term adjustable rate securities;
- 20 h. cash alternatives;
- 21 i. completely safe;
- 22 j. liquid at any time; and/or
- 23 k. always liquid at an auction.

24 Although marketed and sold to investors as safe, liquid, cash-like investments, and although the ARS
25 market had, in fact, functioned for more than twenty years with virtually no auction failures, ARS are

1 actually long-term instruments subject to a complex auction process that, upon failure, can lead to
2 illiquidity and lower interest rates.

3 5. Wachovia Securities further fostered the misconception that ARS were cash-like
4 instruments by providing account portfolio summaries to certain of its customers that listed ARS as “cash
5 equivalents.” In fact, ARS were not “cash equivalents” and full liquidity was only available at an auction
6 if the auction was successful.

7 6. Although Wachovia Securities sold ARS as conservative, safe, and liquid investments to
8 its investors until February 2008, Wachovia had information that several auctions had failed in August
9 2007 and early 2008, before the mass failures in February 2008. During this same period of time,
10 Wachovia failed to inform its customers purchasing ARS after such auctions began to fail that certain
11 auctions would have failed had Wachovia or another broker-dealer not entered support bids in those
12 auctions.

13 7. Although Wachovia knew, or should have known, of the inherent risks and the recent
14 volatility of the ARS market, only minimal information regarding the ARS market was provided to
15 Wachovia Securities’ retail ARS customers.

16 8. Wachovia and its registered securities agents were, or should have been, aware that the
17 ARS market was suffering from increasing failures and liquidity issues, and they should have disclosed
18 those facts to investors who were purchasing auction rates after such issues arose. Based on these facts,
19 Wachovia engaged in dishonest and unethical practices in the marketing and sale of ARS. Pursuant to
20 Section 204 of the Uniform Securities Act, MCL 451.604(a)(1)(g), these practices constitute grounds to
21 revoke Wachovia’s registration as dishonest and unethical practices. These practices included, among
22 other things, the following:

23 a. Wachovia told some ARS investors purchasing ARS after the market disruptions
24 began to occur that:

25 i. ARS were cash equivalents;

1 ii. ARS were completely safe; and/or

2 iii. ARS were liquid at any time.

3 b. Wachovia was or should have been aware that the market for ARS was becoming
4 illiquid, yet Wachovia Securities continued to market and sell ARS to investors.

5 **Temporary Maximum Rate Waiver on Certain ARS**

6 9. The interest rates on ARS are reset periodically through the auction process. In the event
7 that there is insufficient demand for a particular issue and an auction fails, the interest rate resets to a
8 “maximum rate” or “failure rate” as defined in the offering documents for that particular issue. Typically,
9 this maximum rate would be higher than prevailing market rates in order to compensate ARS holders who
10 are unable to sell their positions and offer an “incentive” to induce buyers to return to the market although
11 in some cases, particularly for student loan auction rates, the maximum rate might be lower than the
12 prevailing rate.

13 10. In December 2007, with the encouragement of its underwriters, the Missouri Higher
14 Education Loan Authority (“MOHELA”) sought and secured approval to waive its maximum rate for
15 certain issues of ARS. Absent such waivers, the ARS issued by MOHELA would not have been allowed
16 to reset at interest rates high enough to clear auctions.

17 11. As a result of the maximum rate waivers, certain MOHELA ARS issues reset to a higher
18 rate for a brief period after the waiver was implemented. However, due to a feature of those issues that
19 caps the average interest rate over any given one-year period, the interest rates reset to 0% after the
20 expiration of the waiver period. The ramifications of this maximum rate waiver were not explained to
21 Wachovia Securities’ customers who subsequently purchased MOHELA ARS.

22 12. Wachovia Securities engaged in dishonest and unethical practices by not adequately
23 explaining to individual investors who purchased ARS with maximum rate waivers, among other things,
24 the following:

25 a. that the ARS interest rates could not be reset at a level that would prevent a failed
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1 auction absent the maximum rate waiver; and

2 b. that the high interest rate allowed by the waiver would expire at the end of the
3 waiver period unless extended by the issuer.

4 Pursuant to Section 204 of the Uniform Securities Act, MCL 451.604(a)(1)(g), these practices constitute
5 grounds to revoke Wachovia's registration as dishonest and unethical practices.

6 **Failure To Supervise Agents Who Sold ARS**

7 13. Although ARS are complicated and complex products, Wachovia Securities did not
8 provide its sales or marketing staff with the training and information necessary to adequately explain
9 these products or the mechanics of the auction process to their customers. During the course of
10 investigations, on-the-record statements taken from Wachovia Securities' registered agents demonstrated
11 that these agents lacked a basic understanding of the functionality of the ARS products and the auction
12 rate market.

13 14. Many of Wachovia Securities' registered agents were not adequately educated in the
14 ARS products they were selling and did not know where to look for information to bolster that
15 knowledge. Wachovia Securities failed to provide timely and comprehensive sales and marketing
16 literature regarding ARS and the mechanics of the auction process. In addition, Wachovia Securities
17 failed to review account portfolio statements sent to its customers to ensure that they reflected accurate
18 information regarding ARS.

19 15. Wachovia Securities' failure to provide sufficient training and information concerning
20 ARS and the market environment in which they were sold was not limited to one or two agents, and is
21 therefore indicative of Wachovia Securities' failure to ensure that its registered personnel provided
22 adequate information regarding ARS to its customers.

23 16. Wachovia Securities failed to reasonably supervise its employees, which is grounds for
24 revocation of its registration under Section 204 of the Uniform Securities Act, MCL 451.604(a)(2):

25 a. failing to provide adequate training to its registered agents regarding ARS
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1 by, among other things:

- 2 i. failing to provide timely and comprehensive sales and marketing
3 literature regarding ARS and the mechanics of the auction process;
- 4 ii. failing to provide pertinent information concerning the complexity of the
5 ARS product; and
- 6 iii. failing to ensure that its agents were selling ARS to individual investors
7 for whom they were suitable; and
- 8 b. failing to review account portfolio statements sent to its customers to ensure
9 that they reflected accurate information regarding ARS;
- 10 c. failing to review ARS transactions in accounts of customers who needed
11 liquidity; and
- 12 d. failing to ensure that its registered personnel were providing adequate
13 information regarding ARS to its customers.

14 **II.**

15 **CONCLUSIONS OF LAW**

16 17. The OFIR has jurisdiction over this matter pursuant to the Uniform Securities Act.

17 18. The OFIR finds Wachovia Securities failed to supervise its employees and engaged in
18 dishonest or unethical practices in the securities business, and that this conduct constitutes grounds to
19 revoke Wachovia Securities' registration under Section 204 of the Uniform Securities Act, MCL
20 451.604(a)(1)(g) for dishonest and unethical practices and under Section 204 of the Uniform Securities
21 Act, MCL 451.604(a)(2) for failure to reasonably supervise its employees.

22 19. The OFIR finds this order and the following relief appropriate, in the public interest, and
23 consistent with the purposes intended by the Uniform Securities Act.

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III.

ORDER

On the basis of the Findings of Fact, Conclusions of Law, and Wachovia's consent to the entry of this Order,

IT IS HEREBY ORDERED:

1. This Order concludes the investigation by OFIR and any other action that OFIR could commence under applicable Michigan law on behalf of the State of Michigan as it relates to Wachovia, and its marketing and sale of auction rate securities to investors.

2. This Order is entered into solely for the purpose of resolving the referenced multi-state investigation, and is not intended to be used for any other purpose.

3. Wachovia will CEASE AND DESIST from violating the Uniform Securities Act and will comply with the Uniform Securities Act.

4. Within ten days after the entry of this Order, Wachovia shall pay the sum of \$653,981.26 to the State of Michigan, allocated in the following manner: \$588,583.13 to the State of Michigan General Fund, and \$65,398.13 to the Michigan Investor Protection Fund.

5. In the event another state securities regulator determines not to accept Wachovia's state settlement offer, the total amount of the State of Michigan payment shall not be affected, and shall remain at \$653,981.26.

6. Wachovia Securities and Wachovia Capital Markets, respectively, as agents for one or more affiliated companies and not as principal, shall offer to purchase at par ARS that are subject to auctions that are not successful and are not subject to current calls or redemptions ("Eligible ARS") from all investors in the Relevant Class. For purposes of this Order the Relevant Class shall be defined as all investors who purchased ARS from either Wachovia Securities or Wachovia Capital Markets, respectively, on or before February 13, 2008 into accounts maintained at Wachovia Securities or Wachovia Capital Markets, respectively.

1 a. Wachovia Securities and Wachovia Capital Markets, as agents for one or more
2 affiliated companies and not as principal, shall make an offer to buy the Eligible ARS from
3 Individuals Investors, as defined below, who are in the Relevant Class. This buy back shall
4 commence no later than November 10, 2008 and conclude no later than November 28, 2008. For
5 purposes of this Order, Individual Investors shall include natural persons, individual retirement
6 accounts and the following entities or accounts:

7 i. Accounts with the following owners:

- 8 1. non-profit charitable organizations; and
- 9 2. religious corporations.

10 ii. Accounts with the following owners and with account values or
11 household values up to \$10 million:

- 12 1. trusts;
- 13 2. corporate trusts;
- 14 3. corporations;
- 15 4. employee pension plans/ERISA and Taft Hartley Act plans;
- 16 5. educational institutions;
- 17 6. incorporated non-profit organizations;
- 18 7. limited liability companies;
- 19 8. limited partnerships;
- 20 9. non-public companies;
- 21 10. partnerships;
- 22 11. personal holding companies;
- 23 12. unincorporated associations; and
- 24 13. governmental and quasi-government entities.

25 b. Wachovia Securities and Wachovia Capital Markets as agent for one or more
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1 affiliated companies and not as principal, shall commence a buy back of the Eligible ARS from
2 all other investors in the Relevant Class not otherwise covered by subparagraph a, above, no later
3 than June 10, 2009 and conclude no later than June 30, 2009.

4 7. No later than November 28, 2008, Wachovia shall pay any investor in the Relevant Class
5 who sold ARS below par between February 13, 2008 and August 15, 2008 and whom Wachovia can
6 reasonably identify, the difference between par and the price at which the investor sold the ARS.

7 8. Wachovia shall notify all investors in the Relevant Class of the provisions of this Order
8 as provided in paragraphs 9 and 10.

9 9. As part of Wachovia's general obligation to notify all investors in the Relevant Class
10 pursuant to paragraph 8, above, Wachovia shall mail the Required Notification, defined below, by
11 November 10, 2008, to all investors in the Relevant Class that held ARS positions in a Wachovia account
12 as of August 31, 2008. For purposes of the Order, "Required Notification" shall mean a notice that
13 includes general statements and information specific to each investor, including:

- 14 a. a general notification of all provisions of this Order;
- 15 b. the specific security purchased;
- 16 c. the quantity purchased;
- 17 d. the par value of the holding;
- 18 e. a prominent statement disclosing that at this time the Relevant Class member's ARS

19 holdings may not be liquid and that there is a possibility that this offer may be the only opportunity
20 for the investor to liquidate the ARS holdings; and

21 f. a statement that the offer to repurchase the ARS holdings, and other relief specified
22 in the Order, is being made pursuant to a settlement with state securities regulators.

23 10. By November 10, 2008, Wachovia shall mail the Required Notification to all investors in
24 the Relevant Class that transferred ARS positions to a firm other than Wachovia, prior to the date of this
25 Order, if the initial purchase of the Eligible ARS was on or after January 1, 2003 unless the ARS has been

1 redeemed in full by the issuer.

2 11. Wachovia shall demonstrate that all investors in the Relevant Class received the Required
3 Notification if Wachovia demonstrates that: 1) Wachovia mailed the Required Notification via First
4 Class mail at the customer's last known address and did not receive a return notice, or 2) Wachovia
5 repurchased ARS from the investor.

6 12. Wachovia Securities shall establish and maintain a dedicated telephone assistance line,
7 with appropriate staff, to respond to questions from investors concerning the terms of this Order and
8 Wachovia's no net cost loan (nonrecourse, no release) program. Wachovia Securities shall maintain this
9 dedicated telephone assistance line through June 30, 2009.

10 13. With respect to any claim for consequential damages, to the extent such claims are not
11 resolved informally by Wachovia, Wachovia shall arbitrate the claim of any Relevant Class member who
12 elects to arbitrate, pursuant to the following provisions:

13 a. the arbitrations will be conducted by a public arbitrator (as defined by section
14 12100(u) of the NASD Code of Arbitration Procedures for Customer Disputes, eff. April 16,
15 2007), under the auspices of FINRA;

16 b. the above-referenced public arbitrator will be available for the exclusive purpose
17 of arbitrating any Relevant Class member's consequential damages claim;

18 c. Wachovia shall pay all applicable forum and filing fees;

19 d. any Relevant Class member who chooses to pursue such a claim shall bear the
20 burden of proving that they suffered consequential damages and that such damages were caused
21 by investors' inability to access funds consisting of investors' ARS purchases through Wachovia;
22 and

23 e. Wachovia shall be able to defend itself against such claims; provided, however,
24 that Wachovia shall not contest liability related to the sale of ARS; and provided further that
25 Wachovia shall not be able to use as part of its defense an investor's decision not to borrow
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1 money from Wachovia.

2 14. By November 28, 2008, Wachovia Securities and Wachovia Capital Markets,
3 respectively and separately, shall refund refinancing fees received by it to municipal auction rate issuers
4 that issued such securities in the initial primary market between August 1, 2007 and February 13, 2008,
5 and refinanced those securities through Wachovia after February 13, 2008.

6 15. If Wachovia defaults in any of its obligations set forth in this Order, OFIR may vacate
7 this Order, at its sole discretion, upon 10 days notice to Wachovia and without opportunity for
8 administrative hearing or may refer this matter for enforcement as provided in the Uniform Securities Act.

9 16. This Order is not intended to indicate that Wachovia or any of its affiliates or current or
10 former employees shall be subject to any disqualifications contained in the federal securities law, the rules
11 and regulations thereunder, the rules and regulations of self regulatory organizations or various states'
12 securities laws including any disqualifications from relying upon the registration exemptions or safe
13 harbor provisions. In addition, this Order is not intended to form the basis for any such disqualifications.

14 17. This Order may not be read to indicate that Wachovia or any of its affiliates or current or
15 former employees engaged in fraud or violated any federal or state laws, the rules and regulations
16 thereunder, or the rules and regulations of self regulatory organizations.

17 18. For any person or entity not a party to this Order, this Order does not limit or create any
18 private rights or remedies against Wachovia including, without limitation, the use of any e-mails or other
19 documents of Wachovia or of others for the marketing and sale of auction rate securities to investors, limit or
20 create liability of Wachovia, or limit or create defenses of Wachovia to any claims.

21 19. This Order shall not disqualify Wachovia or any of its affiliates or current or former
22 employees from any business that they otherwise are qualified or licensed to perform under applicable
23 state law and this Order is not intended to form the basis for any disqualification.

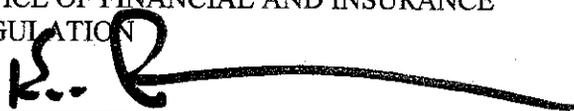
24 20. Nothing herein shall preclude Michigan, its departments, agencies, boards, commissions,
25 authorities, political subdivisions and corporations, other than OFIR and only to the extent set forth in

1 paragraph 1 above, (collectively, "State Entities") and the officers, agents or employees of State Entities from
2 asserting any claims, causes of action, or applications for compensatory, nominal and/or punitive damages,
3 administrative, civil, criminal, or injunctive relief against Wachovia in connection with the marketing and
4 sale of auction rate securities at Wachovia.

5 21. Wachovia shall pay its own costs and attorneys' fees with respect to this matter.

6 Dated this 21st day of March, 2009.

7 BY ORDER OF THE COMMISSIONER OF THE
8 OFFICE OF FINANCIAL AND INSURANCE
9 REGULATION



10 Commissioner,
11 Office of Financial and Insurance Regulation

CONSENT TO ENTRY OF ADMINISTRATIVE ORDER BY WACHOVIA

1 Wachovia hereby acknowledges that it has been served with a copy of this Consent Order, has read
2 the foregoing Order, is aware of its right to a hearing and appeal in this matter, and has waived the same.
3

4 Wachovia Securities admits the jurisdiction of OFIR and Wachovia Capital Markets consents to the
5 jurisdiction of OFIR for purposes of this Order. Neither Wachovia Securities nor Wachovia Capital Markets
6 admits or denies the Findings of Fact and Conclusions of Law contained in this Order; and each consents to
7 entry of this Order by the Commissioner as settlement of the issues contained in this Order.

8 Wachovia states that no promise of any kind or nature whatsoever was made to it to induce it to enter
9 into this Order and that it has entered into this Order voluntarily.

10 Doug Kelly represents that he/she is Exec. V.P. of Wachovia
11 Securities, LLC and that, as such, has been authorized by Wachovia Securities, LLC to enter into this Order
12 for and on behalf of Wachovia Securities, LLC.

13 _____ represents that he/she is _____ of Wachovia Capital
14 Markets, LLC and that, as such, has been authorized by Wachovia Capital Markets, LLC to enter into this
15 Order for and on behalf of Wachovia Capital Markets, LLC.

16 Wachovia agrees that it shall not claim, assert, or apply for a tax deduction or tax credit with
17 regard to any state, federal or local tax for any administrative monetary penalty that Wachovia shall pay
18 pursuant to this Order.

19 Dated this 24 day of March, 2009.

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21 Wachovia Securities, LLC

22 By: Doug Kelly

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24 Title: Exec. V.P.
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Wachovia Capital Markets, LLC

By: _____

Title: _____

SUBSCRIBED AND SWORN TO before me this 24 day of March, 2009.

Tammy Rogers
Notary Public

My commission expires:



TAMMY ROGERS
My Commission Expires
April 20, 2012
Jefferson County
Commission #083826067

CONSENT TO ENTRY OF ADMINISTRATIVE ORDER BY WACHOVIA

1 Wachovia hereby acknowledges that it has been served with a copy of this Consent Order, has read
2 the foregoing Order, is aware of its right to a hearing and appeal in this matter, and has waived the same.
3

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5 jurisdiction of OFIR for purposes of this Order. Neither Wachovia Securities nor Wachovia Capital Markets
6 admits or denies the Findings of Fact and Conclusions of Law contained in this Order; and each consents to
7 entry of this Order by the Commissioner as settlement of the issues contained in this Order.

8 Wachovia states that no promise of any kind or nature whatsoever was made to it to induce it to enter
9 into this Order and that it has entered into this Order voluntarily.

10 _____ represents that he/she is _____ of Wachovia
11 Securities, LLC and that, as such, has been authorized by Wachovia Securities, LLC to enter into this Order
12 for and on behalf of Wachovia Securities, LLC.

13 Barbara H Wright represents that he/she is SVP of Wachovia Capital
14 Markets, LLC and that, as such, has been authorized by Wachovia Capital Markets, LLC to enter into this
15 Order for and on behalf of Wachovia Capital Markets, LLC.

16 Wachovia agrees that it shall not claim, assert, or apply for a tax deduction or tax credit with
17 regard to any state, federal or local tax for any administrative monetary penalty that Wachovia shall pay
18 pursuant to this Order.

19 Dated this 24 day of March 2009.

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21 Wachovia Securities, LLC

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23 By: _____

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Wachovia Capital Markets, LLC

By 

Title: SVP

SUBSCRIBED AND SWORN TO before me this 24th day of March, 2009.


Notary Public

My commission expires:

June 10, 2011